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The economy

The long-forecast recession is becoming a reality. In the second quarter of this year, GNP decreased at an annual rate of 9 percent, equaling the decline in the 1974-75 recession, the worst since World War II.

HOW RECESSION WAS GENERATED

The present downturn was being generated nearly two years ago, in the winter of 1978-79. At that time the economy was still in one of its longest periods of sustained growth (as measured by increasing GNP), although it was plagued by a high rate of inflation. During the winter, temperatures were below normal, requiring excessive use of heating oil. In addition, OPEC raised crude petroleum prices 10 percent.

The effects of these events were felt in several ways during the spring of 1979. Probably the first effect to be noticed was the rise in gasoline prices that resulted from the OPEC price increase. Further adding to the price of gasoline was the oil companies' claim that supplies were tight. Soon gasoline was being rationed in some states.

When consumers saw these things, sales of U.S.-made automobiles fell dramatically, contributing to a decline of 3.3 percent (annual rate) in GNP during the second quarter of 1979. At that point a recession was thought to be around the corner.

Consumers proved this forecast wrong as they resumed their spending in the third quarter of 1979, convinced that they should "buy now" to avoid paying higher prices later on. This buying spree pushed GNP ahead. Installment credit rose to record levels while savings rates dropped very low. By year's end, the inflation rate was running at 11-12 percent a year, followed by a jump to 18-20 percent early in 1980.

With the economy moving toward a dangerously unstable position, the Federal Reserve Board raised the discount rate at which other banks may borrow money from the Reserve to 13 percent, from 9.5 percent a year earlier. This action, plus others taken by the Board to tighten credit, induced major banks to raise their prime interest rates to 17-18 percent. The result was as planned: Outstanding consumer credit fell for the first time in five years and the savings rate increased from 3.4 to 4.2 percent of disposable income. As consumers paid off debts and increased their savings, they reduced their spending, bringing about a decline in GNP. The current recession is unique because it was brought about purposefully to slow the rate of inflation.

CUTS IN PRODUCTION AND INCOME

A decline in consumer demand means that many manufacturers will cut their production schedules. Some employees may have less than full-time work, while others may be laid off entirely. The resulting reductions in individual incomes can lead to an overall decline in consumer disposable income. During the present recession *real* income levels are eroded more rapidly by the high rate of inflation. Thus a recession includes not only a declining gross national product, but also unemployment and less "pie" for a portion of the work force.

EFFECTS ON AGRICULTURE

Many analysts familiar with the agricultural sector of the economy suggest that a decline in disposable income may reduce the demand for food, especially food consumed away from home. However, any effect of declining incomes on food expenditures is likely to be weak, judging from the recent past.

During the 1969-70 recession, income showed quarterly declines, but food expenditures, both for home and away-from-home consumption, did not change. The deeper recession of 1974-75 caused a 2.5 percent decline in income during 1974. However, spending for food eaten at home continued to increase at an annual rate of 2 percent. Spending for food eaten away from home did not decline, but neither did it increase. This reversed a 15-year trend for away-from-home food expenditures to increase twice as fast as expenditures on food for home consumption. The 1974-75 recession may thus have had a slight effect on spending for food.

A second question about the effects of a recession on agriculture is whether it will reduce the price of farm inputs. Judging from the low level of farm income last year and the high interest rates of this spring, one would think that demand for farm inputs, particularly machinery, would be weak and that this weakness, in turn, would be reflected in the price of the input. However, the prices paid by farmers are, in general, about 10 percent higher in 1980 than in 1979. This increase is not significantly different from the general inflation rate of about 13 percent; nor does it represent significant changes from the year before.

WHEN WILL RECESSION END?

The question of when this recession can be expected to end is not any easier to answer than the question of when it was to start. Some limits can be

placed on it by saying that the seven recessions since World War II have varied from two to six quarters in length. The longest one was the 1974-75 downturn.

The length of the present recession will depend on a number of factors. One is the level of interest rates, which was partially to blame for the start of the recession. Since the March-April period, when interest rates peaked at around 17 percent for the average consumer loan, they have subsided to 13 or 14 percent. This is attributable to the Federal Reserve's recent actions of reducing its discount rate to 11 percent and lightening other restrictions on bank lending practices. Lower interest rates should spur some new demand for consumer goods.

Another factor to consider is the possibility of a tax cut. A cut given to consumers would lead to increased demand, but might also boost the rate of inflation. A tax cut for business, in the form of investment credits or accelerated depreciation allowances, would induce purchases of new, more efficient plants and equipment. The ultimate effect would be to place money in the economy, while preparing the supply side for any possible new demands. This result would not be as inflationary as a tax cut to the consumer, but the benefits would be slower to occur. Remember that whatever Congress does about a tax cut in this election year may be influenced more by politics than economics.

The lower interest rates have not had much time to work and no specific tax bill is before Congress. However, on the basis of present information, a good guess is that the economy might resume its growth early in 1981. — *H. W. Everett*

Farm input costs

Total cost of U.S. farm inputs increased about 10 percent from June, 1979, to June, 1980. The biggest increases were in the costs of fertilizer, energy, farm machinery, and interest paid.

Prices of farm-produced inputs increased more slowly than the average of all inputs. Feed increased by about 4 percent during the 12-month period and seed by about 9 percent, while feeder livestock prices dropped about 9 percent.

Fertilizer prices were 28 percent higher in June, 1980, than a year earlier. The rising prices greatly reduced demand in the spring. Fertilizer use was 23 percent lower in March, 1980, than in March, 1979. However, consumption from July, 1979, through March, 1980, was up about 9 percent over a year earlier. Total fertilizer use for the year ending June 30 may be about 1 percent less than in the previous year. Larger producer inventories may result in some weakness in fertilizer prices toward the end of 1980. But continued inflation and higher energy costs could cause pressure for higher fertilizer prices in 1981.

Fuel and energy prices increased about 43 percent from June, 1979, to June, 1980. Prices of LP gas and diesel fuels have risen about 50 percent since June, 1979, and they will continue to increase with rising

Changes in Prices Paid by U.S. Farmers From June 15, 1979, to June 15, 1980

Item	Percent change, 1980/1979
Feed	4
Feeder livestock	-9
Fertilizer	28
Agricultural chemicals	21
Fuel and energy	43
Tractors and S.P. machinery	11
Farm services and cash rent	6
Interest per acre on R.E. loans	25
R.E. taxes per acre	8
Wage rates	6
Production items, interest, R.E. taxes, and wages	10

prices of imported oil and deregulation of domestic oil prices. Fuel supplies are expected to be adequate for the rest of 1980.

Prices paid by farmers for tractors and self-propelled combines increased about 11 percent from June, 1979, to a year later. Other machinery and equipment prices increased about 12 percent. Sales of farm machinery declined substantially in 1980, and *Implement and Tractor* magazine reports that farmers are keeping machinery longer than they formerly did. Farmers are putting more money into repairs in order to reduce total machinery costs. Machinery prices will be pushed up by higher material and labor costs but the rate of increase is expected to be slower than during the past year.

Interest payable per acre for farm real estate debt was 25 percent greater on June, 1980, than a year earlier. Interest rates have declined recently and the Federal Reserve board recently eased credit controls but there will be some time lag before these events will be reflected in the cost of credit to farmers.

The easing in inflation and interest rates may slow some of the inflationary expectations. However, the rising prices of imported oil and deregulation of domestic oil prices will continue to increase the price of fuels and put pressure on fertilizers and agricultural chemical costs. Overall farm production input costs may increase 12 to 14 percent for the year ending June, 1981.

— *R. B. Schwartz*

Corn

In the absence of a feed-grain set-aside program, acreage of feed grains expanded in 1980. At 120.8 million, planted acreage was up 2.7 percent from 1979. Corn acreage increased by 4.3 percent and sorghum and barley acreage by 2.7 percent, although the area seeded to oats declined by 6.6 percent. An estimated 100.3 million acres of feed grains will be harvested in 1980. Corn will account for about 71 percent of the total.

The USDA's August crop report placed total feed grain production at 217.5 million tons compared to 258 million tons a year ago. With a carryover of 57 million tons, total supplies will be 274.5 million tons compared to a record 309 million tons last year.

The corn crop is estimated at only 6.6 billion bushels, down from the record level of 7.76 billion bushels in 1979. Total corn supplies, including carryover, will be 8.4 billion bushels, a decline of 650 million bushels from last year.

DOMESTIC DEMAND FOR CORN

The use of corn for food and industrial purposes has been gradually expanding in the United States (see table). Most of the expansion can be attributed to increased demand by the wet milling industry, particularly the manufacturers of corn sweeteners. Recently, more corn is being used for the production of fuel alcohol. This expansion is expected to continue, bringing food and industrial uses up to 700 million bushels in 1980-81.

Most corn used in the United States is fed to livestock. During the 1979-80 marketing year, corn feeding expanded quite rapidly. The increase reflected a record rate of increase in hog production and large poultry production. Fed cattle numbers were actually smaller than in the previous year.

For the year ahead, livestock numbers will be declining. Hog producers indicated that they would reduce summer and fall, 1980, farrowings by nearly 10 percent from 1979 levels. Relatively low profits have cut the rate of increase in broiler production. Fed cattle numbers will continue to be relatively small. These projections suggest that feed use of corn could decline during 1980-81.

Three factors tend to counteract this argument. First, the production of feed grains other than corn is substantially smaller this year than last year. Corn, then, will constitute a larger portion of all grain fed. Second, improved livestock prices may lead to higher feeding rates. Historically, this has been the case. Third, higher soybean meal prices may induce livestock feeders to substitute corn for soybean meal in the ration.

The best estimate is that corn feeding will decline moderately during 1980-81, totaling 4.3 billion bushels.

CORN EXPORTS

In spite of the embargo of grain exports to Russia, U.S. corn exports were record large in 1979-80, approaching 2.4 billion bushels. Russian buying was heavy during the first part of the marketing year. Purchases by Mexico, Eastern Europe, and Japan have been well above year-ago levels.

Exports during 1980-81 will depend on the size and location of the world wheat and coarse grain crops and on the rate of growth of world feed demand. Early indications were for a larger grain crop in 1980-81 than in 1979-80. The areas of expansion were generally outside the United States. However, increasing livestock numbers and the need to rebuild inventories in some areas should support a strong demand for U.S. corn. Preliminary estimates placed 1980-81 corn exports at 2.5 billion bushels.

U.S. Corn Use, 1974-1980

Oct. 1 crop year	Million bushels				Price ^a
	Export	Food, ind.	Feed	Carry- over	
1974-75.....	1,149	451	3,226	361	\$2.95½
1975-76.....	1,711	489	3,592	399	2.58
1976-77.....	1,684	513	3,587	884	2.13½
1977-78.....	1,898	550	3,710	1,104	2.11
1978-79.....	2,133	575	4,198	1,286	2.41
1979-80.....	2,390 ^b	597 ^b	4,336 ^b	1,727 ^b	2.45 ^c

^a East Central Illinois track bid minus 6¢ elevator charge.

^b Estimate.

^c Through June, 1980.

CORN PRICES

If the production and consumption estimates for 1980-81 actually materialize, carryover stocks would be reduced to 870 million bushels. Such a level would imply that much of the corn currently in reserve would be needed. Prices would likely average above the release level, but below the call level. Currently, these levels are \$2.81 and \$3.26, respectively. An increase in the loan rate raised both the release and call prices.

On the basis of the tight supply situation, corn will have to be priced to bring inventories out of the farmer-held reserve. The price of corn will likely be supported by the \$2.81 release price and limited by the \$3.26 call price. An average price of \$3.00 now seems likely.
— D. L. Good

Wheat

The wheat crop has been interesting to observe this year as potential production has varied from large to short fall to windfall. The fluctuation began last fall, when U.S. farmers increased their winter wheat plantings by 9 percent, to around 57 million acres. Winter wheat acreage is believed to have expanded elsewhere in the world as well. As the winter dormancy period approached, however, growing conditions were less than favorable in the United States and some other countries.

In the spring, although U.S. spring wheat plantings increased by more than 15 percent, soil moisture was at very low levels. In addition, Australia's crop was thought to be severely damaged by drought. But the United States had experienced a mild winter, the European and Soviet crops had suffered little winterkill, and the Australian crop had fully matured before the drought could inflict much damage. Thus, prospects improved greatly and it now appears that world winter wheat production will be at a record level. The spring wheat crop will be about the same as last year.

In the United States, the large winter wheat acreage will combine with an average indicated yield of 35.9 bushels per acre to produce almost 1.9 billion bushels. This will top 1975's record by more than 80 million bushels. Spring wheat acreage should total 22.6 million

acres, of which about one-fourth is planted to Durum. August estimates place yields of Durum at 21 bushels per acre and of other varieties at 24 bushels, for a total spring wheat production of about 455 million bushels. When the June 1 carryover of 900 million bushels is added to this year's production, total wheat supplies for 1980-81 will be over 3.2 billion bushels, also a record.

USE OF WHEAT

Total use of wheat from U.S. supplies is likely to remain near last year's total of 2.15 billion bushels. Food use is expected to increase slightly to about 610 million bushels. A relatively low wheat/corn price ratio may increase feed use from the 75 million bushels of last year to 100 million in 1980-81. Seed use will remain at about 95 million bushels.

Exports of wheat are unlikely to show any gain over last year. Although growing conditions for the world wheat crop have been mixed this year, world production is expected to increase by about 900 million bushels. Significant increases in production are expected in the United States, Western and Eastern Europe, and the Soviet Union. However, decreases are expected in Canada, China, and India. As a result, world trading in wheat should be active, with the United States contributing as much as 1.4 billion bushels to this trade.

The sum of domestic use and exports, or 2.2 billion bushels, falls about 100 million bushels short of expected U.S. production. As a result, stocks should total about 1 billion bushels on June 1, 1981. Such a buildup will be a key factor in determining the price of wheat this year.

PRICES

On the average, farmers received \$3.70 to \$3.80 for their wheat in 1979-80. The 1980-81 price will depend not only on the level of stocks in the United States at the end of the year, but also on whose hands they are in and what government programs exist for supporting this price.

Of the 900 million bushels carried over into 1980-81, more than 20 percent is in CCC inventory. This inventory increased substantially last year because of CCC wheat purchases after the embargo of grain to the Soviet Union. Less than 30 percent of the carryover is in the farmer-owned reserve, and about half is in free stocks. Thus, actual market-ready stocks stand at 450 million bushels this year, compared to 785 million two years ago. The reduction in market-ready stocks could give wheat prices some initial support this year. As the new crop reaches the market place, however, prices are likely to hover within 20 to 25 cents of the grain reserve's release price of \$3.75.

The wheat program offers target price protection of \$3.63 for farmers that remain within their normal crop acreage and \$3.08 for those that do not. The loan rate for the 1980 crop has been set at \$2.50 with an interest rate of 13 percent. Finally, the farmer-owned reserve carries wheat under loan with a release price of \$3.75

per bushel and a call price of \$4.63. Grain may enter the reserve until either the call price is reached or the reserve totals 700 million bushels. As of June 1, only about 250 million bushels were in the reserve. — *H. W. Everett*

Soybeans

Soybean production and consumption set new records in 1979-80. The United States produced 2.27 billion bushels of soybeans and consumed almost 2.1 billion bushels. Carryover stocks were still at record levels, exceeding 350 million bushels. The South American crop, at an estimated 771 million bushels, also set a record.

The large rate of consumption was encouraged by low prices for soybeans and soybean products. Meal prices (basis Decatur) dropped below \$160 per ton and oil prices declined under 20 cents per pound for a time. Soybeans sold for less than \$6 per bushel in the spring of 1980.

As a result of the low prices, farmers reduced soybean plantings in 1980. The USDA estimated planted acreage at 70.28 million acres and projected harvested acreage at 68.6 million, a decline of 2 percent from 1979. Sunflower acreage totaled 4 million, down 28 percent from 1979.

In its August Crop Production estimate, the USDA placed the 1980 soybean crop at 1.88 billion bushels. With carryover of 367 million bushels, total supplies will be 2.25 billion bushels. The minimum carryout level is about 200 million bushels. If the production estimates materialize, 2.0 billion bushels will be available for use during the 1980-81 crop year. Available supplies thus will not allow an expansion in use from the 1979-80 crop year. The price required to ration the soybean crop will depend on the demand for soybean oil and soybean meal.

SOYBEAN OIL

A large array of edible fats and oils is produced around the world. These are all interchangeable to some degree. World consumption of edible oils is increasing rapidly. The size of the world 1980-81 oilseed crops will be significant in determining soybean oil prices.

In its August estimate, the USDA projected the production of world oilseed during 1980-81 at 166.8 million metric tons, down from 177.6 million tons in 1979-80. This reduction primarily reflects the smaller U.S. soybean crop. With a tightening in world vegetable oil supplies, soybean oil prices should rise. We are estimating an average price of 30 cents.

SOYBEAN MEAL

The demand for soybean meal has been very strong in recent years. Increasing livestock numbers in the United States and abroad have contributed to the gain. There is evidence that during the past year the USSR became large users of soybean meal to replace scarce

Soybean Balance Sheet — Years Beginning September 1

	Million bushels				
	1975-76	1976-77	1977-78	1978-79	1979-80 ^a
Carryin	188	245	103	161	174
Production	1,547	1,287	1,762	1,870	2,268
Supply	1,735	1,532	1,865	2,031	2,442
Crush	865	790	927	1,018	1,156
Export	555	564	700	753	839
Seed, feed residual ..	70	75	77	86	80
Disappearance	1,490	1,429	1,704	1,857	2,075
Carryout	245	103	161	174	367
U.S. average price ...	\$4.92	\$6.81	\$5.88	\$6.75	...

^a Projection.

feed grains and to increase protein content of livestock rations. The outlook for soybean meal use is quite good.

Because of limited supplies the U.S. crush rate will not expand during 1980-81. As a result, soybean meal supplies may be tighter than corn supplies. On the basis of projected corn prices, soybean meal would be worth about \$225 per ton.

SOYBEAN PRICES

It goes almost without saying that soybean prices will again be volatile in 1980-81. We have already witnessed such a market. The most important price factor during the first part of the year is the size of the U.S. crop. After that, the prospective size of the South American crop becomes important. At this early date, we can only establish a benchmark value for soybeans. If soybean oil sells for 30 cents and meal prices average \$225 per ton, prices paid to farmers will average about \$8.00 per bushel. — *D. L. Good*

Hogs

After six quarters of increase in the number of sows farrowing, which began in the fall of 1978, hog production appears to have started a cyclical decrease. This decline should lead to relief from the heavy losses incurred since June, 1979.

The increase in farrowings was especially large — more than 20 percent — during the spring of 1979 and glutted the market from September, 1979, through May, 1980. The glut of hogs was augmented by liquidation of breeding stock during the March-May quarter. Further complicating the problem was a major increase in broiler and turkey production.

Although the worst of the overproduction problem is past, prospective production for the September-November, 1980, quarter remains high (see accompanying table). The March-May pig crop in the 14 principal producing states was down less than 1 percent from 1979 and was the second largest quarterly crop, by a wide margin, since the early 1970's. A downward pressure on prices will continue through the fall.

Intentions to farrow during June-August indicate a decrease of 9 percent, hence, a sharp decrease of

slaughter during December-February. According to June 1 intentions, September-November farrowings will be 10 percent less than a year ago. Because of liquidation last March-May, the decrease in slaughter next March-May may be as much as 15 percent.

The price forecasts in the table are based on the hog slaughter shown, stable to moderately decreasing beef production, a moderate cut in broiler production, stable to slightly lower real consumer disposable income, and a basic inflation rate of 9 percent per year. The \$55 forecast for next spring is not high, inflation taken into account. It is \$27.93 in terms of 1972 dollars. In 1972 dollars the price in the spring of 1978 was \$32.07 and in the spring of 1979 was \$28.54.

Profitability forecasts, as shown in the table, are based on the predicted hog prices, small increases in nonfeed costs, \$2.80 to \$3.20 corn prices, and soybean meal prices of \$200 to \$240. By the spring of 1981, profitability may be restored to 1977-1979 levels. Whether this prediction materializes depends on whether producers follow through on their June 1 intentions to cut production by 10 percent this fall. A 10-percent decrease is consistent with past responses to losses.

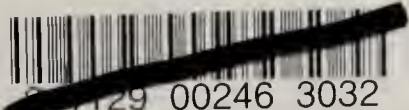
If producers continue to respond as in the past, the profitability forecast for the fall of 1980 should result in a moderately lower level of farrowing during the first half of 1981 than during the same period of 1980, and in fairly strong hog prices through 1981.

Hog producers overexpanded in 1979. How soon will they do it again? If large feed crops are produced in 1980, feed costs during 1981 will be locked into the government support and release prices for corn. Confronted with a relatively fixed feed cost, the pork industry needs to adjust production to a level that will make hog prices moderately profitable. The 10-percent cut indicated for the second half of 1980 appears to achieve such a level. — *T. A. Hieronymus*

Hog Slaughter, Prices, and Profits

Quarter	Slaughter, 1,000 head	Price, \$/cwt.	Profit/loss, \$/cwt.
1978			
Dec.-Feb.	18,853	46.27	+10.00
Mar.-May	20,083	47.57	+11.49
June-Aug.	18,131	47.95	+10.54
Sept.-Nov.	20,314	50.20	+12.71
1979			
Dec.-Feb.	18,816	52.04	+12.53
Mar.-May	22,798	46.07	+ 3.57
June-Aug.	21,898	39.08	- 5.23
Sept.-Nov.	25,712	36.44	- 6.13
1980			
Dec.-Feb.	23,656	37.82	- 4.30
Mar.-May	25,630	30.77	-10.37
June-Aug.	22,441 ^a	43.04 ^a	- .17 ^a
Sept.-Nov.	25,303 ^b	40.78 ^b	- 5.77 ^b
1981			
Dec.-Feb.	22,000 ^b	52.95 ^b	+ 4.71 ^b
Mar.-May	21,989 ^b	54.87 ^b	+ 5.20 ^b

^a Estimated. ^b Forecast.





Beef cattle

Averaging less than expected, cattle prices during the first half of 1980 were disappointing to cattle feeders. Expectations of strong fed cattle prices had been bid into feeder cattle prices and this, combined with strong feed prices, resulted in losses to many cattle feeders. Stable to moderately increasing beef production, less competition from other meats, and general inflation should result in substantially higher cattle prices during the year ahead. Cattle feeders will make money if they do not pay too much for feeder cattle and if they keep feed yards current so that cattle are not marketed at excessive weights.

During late 1979 and the first half of 1980 average cattle slaughter weights were up sharply from the year before. From October, 1979, through June, 1980, average slaughter weight was 1,078 pounds compared to 1,056 pounds during the same period in 1978-79. The extra weight put downward pressure on prices.

A key question is whether "normal" slaughter weights have permanently increased. Probably not, because cattle feeders consistently undermarketed their intentions. During the five consecutive quarters beginning April-June, 1979, cattle feeders sold only 95 to 96 percent as many cattle as they said at the beginning of each quarter they intended to sell. They apparently held on for higher prices. Market weights will have an important bearing on cattle prices during the year ahead.

Cattle numbers stabilized during 1979 and are turning up moderately during 1980. Part of the increased production from larger numbers will be taken up by inventory increase so that market supplies of beef in 1981 will be up only slightly from the 1980 level. Total beef supplies during 1981 should remain well below the 1974-1978 totals.

The July 1, 1980, cattle inventory report indicated a slow turn in the cattle cycle. Total number of cattle was 123.2 million, up 4 percent from 118.5 million a

year ago. At 39 million, beef cow numbers were up 6 percent from the previous year. The number of beef replacement heifers, at 5.8 million head, was unchanged.

Decreased cow numbers and calf crops in recent years have reduced the feeder animal supply. As of July 1, animals other than the breeding herd totaled 60.3 million in 1980, compared to 58.4 million in 1979, 61.4 million in 1978, and 67.8 million in 1975. The number of animals available to feedlots will remain small for more than the next 12 months.

Projections for 1980 shown in the accompanying table are based on slaughter the first six months, the July 1 cattle inventory, and July 1 Cattle on Feed report. These things project to a cattle inventory on January 1, 1981, of 115.2 million head. The 4.2 million increase over 1980 includes 1.5 million cows and the carryover from the 1980 calf crop, which is larger than the 1979 crop.

Projections for 1981 are based on continued moderate cow slaughter and further holding of heifers for the breeding herd. If these things materialize, cattle numbers on January 1, 1982, may total 117 million. The beef production shown for 1981 is based on the buildup in cattle inventory, continued low levels of veal calf slaughter, and continued slaughter at relatively heavy weights. If slaughter weights return to 1978-79 levels, beef production in 1981 will be equal to or less than the 1980 level.

Demand for beef should be greater in 1981 than in 1980. Beef demand in 1980 was held down by record pork and poultry production and the onset of recession. The June Hogs and Pigs report indicates a 10 to 15 percent cut in pork production during December-May, 1980-81. Continued high feed costs relative to hog prices should prevent an increase during the second half of 1981. Broiler and turkey supplies will continue to decline because of unprofitable production. Total meat supplies will be down from the record 1980 levels.

The pork and poultry supply reduction will have only a moderate effect on cattle prices. Consumers do not readily substitute pork and poultry for beef. During the March-May, 1980, period of very large pork supplies, cattle prices were more than double hog prices. Steady to increasing beef supplies and smaller pork supplies during 1981 should narrow the cattle-to-hog price ratio.

Consumers' expenditures for meat will be conditioned by their real incomes. If the recession does end and real consumer incomes start rising during 1981, demand for beef will increase, putting upward pressure on prices. The underlying rate of inflation is about 9 percent. If there is a decrease in 1981 it will be moderate.

On the basis of a small increase in beef supplies, less pressure from pork and poultry, stable to moderately increasing real disposable income, and a 9 percent inflation rate, we expect an average price for Choice steers of \$75 to \$80 during 1981. This would equal \$38 to \$41 in 1972 dollars. — *T. A. Hieronymus*

Cattle Industry Data

Year	Million head			Beef prod'n, mil. lb.	Omaha Choice steers, price per cwt.	
	On farms Jan. 1	Calf crop	Cattle slaughter		1972 \$	Current \$
1966....	108.9	43.5	34.2	19.5	33.42	25.65
1967....	108.8	43.8	34.3	20.0	32.03	25.31
1968....	109.4	44.3	35.4	20.7	32.50	26.83
1969....	110.0	45.2	35.6	21.0	34.23	29.68
1970....	112.4	45.9	35.4	21.5	32.11	29.34
1971....	114.6	46.7	35.9	21.7	33.89	32.54
1972....	117.9	47.7	36.1	22.2	35.76	35.76
1973....	121.5	49.2	34.0	21.1	42.11	44.60
1974....	127.8	50.9	37.3	22.8	36.47	41.85
1975....	132.0	50.2	41.5	23.7	35.31	43.80
1976....	128.0	47.4	43.2	25.7	29.23	39.11
1977....	122.8	46.1	42.4	25.0	28.70	40.39
1978....	116.3	43.8	40.0	24.0	34.42	52.33
1979....	110.9	42.8	34.1	21.5	40.89	67.67
1980 ^a ...	111.0	45.5	33.6	20.9	38.25	68.85
1981 ^b ...	115.2	46.0	34.3	21.7		

^a Projections, based on first 6 months.

^b Projections, based on a small increase in cattle numbers in 1981.